British Columbia Ferry Commission

# Annual Report
## for the Fiscal Year Ending March 31, 2009

*Prepared and submitted in accordance with*
*Section 53 of the Coastal Ferry Act*
*of the Province of British Columbia*

British Columbia Ferries Commissioner
P.O. Box 1497
Comox, B.C.
V9M 8A2

Telephone (250) 339-2714

http://www.bcferrycommission.com
info@bcferrycommission.com

July 31st, 2009

To the Lieutenant Governor in Council

Comox, B.C.
July 31st, 2009

May It Please Your Honour:

**BC Ferry Commission Annual Report**
**For the Fiscal Year Ending March 31, 2009**

I am pleased to submit to you the sixth Annual Report of the BC Ferry Commission.

As required by section 53 of the *Coastal Ferry Act*, the report sets out briefly all applications and requests for decisions to the Commissioner under the Act, all orders issued by the Commissioner, the financial statements applicable to the Office of the Commissioner for the above period along with full disclosure of the expenses of, and associated with, the Office of the Commissioner.

Yours truly,

Martin Crilly
BC Ferries Commissioner

## CONTENTS


| | | |
|---|---|---|
| 1 | HIGHLIGHTS AND MESSAGE FROM THE COMMISSIONERS | 2 |
| 2 | THE ROLE OF THE COMMISSION | 7 |
| 3 | ACTIVITY SUMMARY | 10 |
| 4 | ACTIVITY DETAIL | 10 |
| 5 | AVERAGE FARE LEVELS | 17 |
| 6 | FINANCIAL STATEMENTS | 19 |

# 1 Highlights and Message from the Commissioners

This report covers the Commission's operations for the year ending March 31, 2009. It was the sixth year of the Commission, and also the first year of the four-year-long Performance Term Two under the *Coastal Ferry Act*.

*Overall service quantity and quality*

As in previous years, every three months the number of sailings that BC Ferries delivered, the quality of service and the fares charged are tracked by the Commission. The Commission's findings indicate that **BC Ferries again substantially met its contractual obligation to provide core services**. It maintained its capacity and service frequencies at or above the minimum requirements under the Coastal Ferry Contract.

One of the Commission's tasks is to monitor service quality. The Commission found that, overall, BC Ferries operated reliably. On time performance was generally good with 87.9% of BC Ferries' sailings departing within 10 minutes of schedule, system wide. This record was achieved despite problems with the availability of vessels for its most-travelled route, Tsawwassen-Swartz Bay.[1]

*Customer satisfaction levels*

There has been consistent tracking of **customer satisfaction** through an annual sampling survey conducted by an outside firm. The latest survey finds that overall customer satisfaction dipped to 86% from 88% in 2008, after improving in many areas in 2006 and leveling off in 2007.

*Fares and fare caps*

This was the first year in which BC Ferries had to charge fares within **caps set by a ruling of the Commission**, rather than by the Act, as was the case for Performance Term One. Under a ruling made by the Commission in 2007, fare caps rose by 7.3% on the major route group and by 4.0% on the other three route groups on April 1, 2008. The Commission monitored actual average fares to ensure compliance with these caps throughout the year, which BC Ferries did, with one exception – on the major route group, average fares for the quarter ending March 31, 2009 slightly exceeded the price cap. The Commission's policy requires BC Ferries to bring these fares under the price cap no later than the measurement point of December 31, 2009.

---

[1] The weaker on-time performance on Route 1 was largely due to a severe mechanical issue on the *Spirit of British Columbia* and the eight-month late completion of the *Queen of New Westminster* upgrade.

The same ruling set fare cap increases for April 1, 2009, 2010 and 2011, with the exact amount of the increase linked by formula to CPI inflation. The formula takes into account BC Ferries' higher interest and amortization costs as new ships enter the fleet. This year alone, BC Ferries deployed four new vessels.[2] The Commission's inflation-linked formula called for price cap increases on April 1, 2009 of 3.74% on the major routes and 7.25% on all other routes.

Overall, the formula allows BC Ferries to raise fares faster than general inflation right through to 2012. Even though a challenge to BC Ferries to improve overall productivity by 1% annually was factored into the formula, the Commission expects that in future fares will climb up to two times the rate of general inflation on the major route group, and up to three times on the other route groups[3].

*One-third fare cut in December and January*

On October 22, 2008, the Premier of British Columbia announced that, with a special one-time subsidy of approximately $20 million, BC Ferries' fares would be **reduced by one-third for the two months of December 2008 and January 2009**. For purposes of enforcing fare caps, the Commission recognized the special subsidy as fare revenue, apportioned between the third and fourth quarter. Effective February 1, 2009, fares returned to pre-special-subsidy levels.

*Fuel surcharge mechanism*

The Commission's fare cap formula was developed a few months before the fuel price spike in summer 2008. The formula embodies a forecasted set price of approximately 78 cents/litre for marine diesel fuel starting in April 2008, rising with the consumer price index through 2012. Along with many others, the Commission was surprised when actual spot fuel prices exceeded the forecast by 50%.

The situation was handled through an **automatic fuel surcharge/rebate mechanism** which had been part of the Commission's fare cap ruling. During the year, the ruling was amended to permit faster changes in surcharges to meet the surge, and subsequent fall, in fuel prices.

The mechanism allowed fuel surcharges of 10.3% on the major routes, 17.6% on the minor routes and 9.2% on the Horseshoe Bay-Langdale route on August 1, 2008. The collapse of fuel prices in the last half of 2008 meant removal of all fuel surcharges by the end of December. Indeed, **fuel rebates** are now applied on the minor route group. On July 15, 2009, the rebate rose from 5% to 8% of the base fare.

*Fuel conservation plan*

In permitting BC Ferries to levy fuel surcharges, the Commission required a fuel conservation plan for 2008/09 and 2009/10. The company committed to a continued focus on several initiatives. They include monitors on vessels to optimize fuel efficiency, hull resurfacing on some vessels to reduce drag, and various other operating adjustments. Actual

---

[2] *Coastal Inspiration, Coastal Celebration, Island Sky* and the *Northern Expedition*.

[3] A graph showing historical and projected fare levels, including fuel surcharges/rebates, for all the route groups starting in 2003 through 2012, appears in Section 5 of this report.

versus fuel consumption targets will be reported on by the Commission when data is received by BC Ferries.

*Safe-Crewing Requirements*

Effective January 1, 2009, Transport Canada, BC Ferries' safety regulator, issued new safe-crewing requirements. These requirements mean that on certain vessels serving the group of 18 minor routes, BC Ferries must increase the number of crew in order to carry the same maximum passenger loads as last year. As this requirement would raise operating costs, BC Ferries, as an interim measure, has chosen to maintain prior crewing levels by reducing the maximum number of passengers it carries on some vessels.

This raises the possibility that "overloads" (sailings departing full and leaving waiting customers behind) may become more frequent on minor routes, especially in the summer (July-September) which is its busiest quarter.

*Traffic Declines*

After several years of essentially flat traffic volumes, BC Ferries has reported a **sharp drop in its traffic volumes over the past year**. The Commission tracks an index of annual traffic quantity, with a value of 100.0 for calendar 2003. As the chart to the left shows, at the end of March 2009, the system traffic index was 98.8, down 5.5% from 104.6 a year earlier.

Traffic volumes on the Northern Route Group are most noticeably flagging. During the year they reached only 80% of levels seen six years ago.

Within a performance term, BC Ferries shoulders the financial risk due to fluctuations in traffic. This means that BC Ferries will not be compensated through higher fares for lower-than-expected traffic, unless the company can satisfy the Commission that the circumstances are extraordinary.

*Alternative service delivery*

BC Ferries must seek **alternative service providers** (ASPs) on its routes and to submit a plan for doing so for each performance term, under section 69 of the Act. The execution of the Performance Term One plan saw no new ASPs engaged. One has been renewed on the passenger-only Langdale-Gambier-Keats service.

In June 2008, BC Ferries advised the Commission of its decision to continue to operate the Mill Bay-Brentwood Bay route itself. BC Ferries chose not to pursue a proposal submitted by a potential ASP, which was rejected for economic reasons largely, but not exclusively, due to the level of service fee being proposed by the proponent.

Pursuant to its ASP plan for the Performance Term Two, in the summer of 2008, BC Ferries sought ASPs on the Campbell River-Quadra, Quadra-Cortes and Port McNeill-Sointula-Alert Bay routes. Then, in January 2009, the company notified us that, since no alternative service provider had submitted a proposal, it will continue to be the provider of service on these routes.

At time of writing this report, the company is seeking ASPs for service to its mid-coast ports of Shearwater and Ocean Falls.



*Productivity and innovation*

The past two annual reports of the Commission have raised the **crucial issues of productivity and innovation**. BC Ferries enjoys monopoly privileges. It faces no bracing competition that would encourage it to survive, and thrive, through continuous productivity improvements.

*Productivity initiatives by BC Ferries*

The Commission recognizes that BC Ferries has undertaken productivity initiatives during the year, including:

- introduction of the Experience Card which gives more customers easier access to discount fares, and which promises to be more efficient than the paper ticket system it replaces;
- entry into the drop trailer market on the major route group to utilize spare capacity, going head-to-head with an established large private sector competitor;
- a reduction in both management and union workforces, to cut costs;
- a feasibility study examining a cable ferry alternative for Denman Island; and
- an effort to curtail some sailings last fall on the Horseshoe Bay-Langdale route and the major routes, as allowed by the Coastal Ferry Service Contract as amended in June 2007. This attempt was reversed by the Provincial Government which reimbursed BC Ferries for the costs they would have otherwise saved through fewer sailings.

In light of the recent slide in traffic and demographic shifts, which may dampen growth in the longer term, productivity gains and innovation will be essential in the future, in order to moderate increases in payments from ferry customers and taxpayers.

*Issue of over-capacity*

In this regard, the Commission draws attention to the terms of the Coastal Ferry Services Contract with the Province, which require a certain minimum service frequency on each route. The Commission notes that on the group of 18 minor routes during January to March 2009, the current requirement meant that the **vehicle deck space on the average sailing was only one-third full**. This degree of over-capacity, i.e. low productivity, warrants examination by the two parties to the contract.

*Importance of the length of the performance term*

It falls to the regulatory framework and the Commission to provide incentives for productivity gains and innovation.

When setting fare caps for a performance term, the Commission must take into consideration the productivity gains that, in the Commission's opinion, acting reasonably, BC Ferries should achieve in the performance term. Accordingly, in setting caps for Performance Term Two, the caps were lowered by a productivity adjustment.

However, the Commission has concerns that the current framework is insufficient to provide incentives for BC Ferries to achieve gains. In last year's message, the length of performance terms under the *Coastal Ferry Act* was questioned. With the current four-year performance terms, BC Ferries is assured of retaining a maximum of only four years' worth of cost

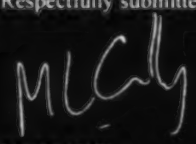
savings. The actual time frame for savings is inevitably shorter given feasibility studies, approval processes and actual investment.

The Commission views the company as understandably risk-averse within this framework. The Commission reiterates that a longer than four-year period for retaining savings would more strongly encourage risk-taking for productivity enhancement and innovation, which is in the long-term interests of ferry customers. Even though the Commission has offered and, in the case of the Denman cable ferry alternative, have actually committed to postpone for more than one four-year term the capture for fare-payers of cost savings, BC Ferries remains skeptical and holds to a conservative approach to innovation.

*Personnel changes at the Ferry Commission*

Finally, certain recent and prospective staffing changes at the Commission are noted. **Sheldon Stoilen** of Bowen Island began his six-year term as Deputy Commissioner in June 2008. **Martin Crilly** of Comox sees the end of his seven-year term as Commissioner in June 2010. **Nancy Cameron**, who has served as Communications Manager, has announced her resignation effective July 31, 2009. The Commission thanks her warmly for her support and wishes her well. In her place, we welcome **Mary Stambulic** of Victoria joining us as Assistant to the Commission.

Respectfully submitted,



Martin Crilly
BC Ferries Commissioner

Sheldon Stoilen
Deputy BC Ferries Commissioner

July 31, 2009

# 2 The Role of the Commission

**Policy Principles for the BC Ferry Commission**
*Coastal Ferry Act*, section 38

---

(a) priority is to be placed on the financial sustainability of the ferry operators;
(b) ferry operators are to be encouraged to adopt a commercial approach to ferry service delivery;
(c) ferry operators are to be encouraged to seek additional or alternative service providers on designated ferry routes through fair and open competitive processes;
(d) ferry operators are to be encouraged to minimize expenses without adversely affecting their safe compliance with core ferry services;
(e) cross subsidization from major routes to other designated ferry routes is (i) to be eliminated within the first performance term of the first Coastal Ferry Services Contract to be entered into under this Act, and (ii) before its elimination, to be minimized;
(f) the designated ferry routes are to move towards a greater reliance on a user pay system so as to reduce, over time, the service fee contributions by the government.

The **BC Ferry Commission** regulates ferry operators under the *Coastal Ferry Act* of 2003. The Province appoints the Commissioner and up to two Deputy Commissioners as statutory officers for six- to eight-year terms. They are independent of both the government and ferry operators. In August 2003, Martin Crilly of Comox was appointed Commissioner for a term of seven years expiring on June 30, 2010. In June 2008, Sheldon Stoilen of Bowen Island was appointed Deputy Commissioner for a six-year term expiring on June 30, 2014.

Their decisions cannot be appealed, except on a question of law. They may be terminated only for mental infirmity, conviction for an indictable offence under Canada's criminal code, or a judicial finding of conflict of interest or material breach of duties or obligations.

The Commission is not an ombudsperson acting to resolve any private disputes with ferry operators; nor is it a general complaints or compliments bureau. Further, it is not responsible for regulating safety or environmental impacts of ferry operations.

In exercising its powers as watchdog, the Commission is obliged to follow six policy principles in protecting the public interest as outlined in the box to the left.

BC Ferries was created in April 2003 from the former BC Ferry Corporation, which was a taxpayer-supported crown corporation. It is now a self-financing company with a mandate to widen travel choices for users and improve service quality.

Under a long-term contract with the Province, BC Ferries must operate its system to provide defined **minimum core service levels** on each of the 25 routes. On three of them, called **major routes,** which are financially self-sufficient, BC Ferries receives no subsidy. On the other 22, the government pays BC Ferries a **ferry transportation or service fee** per-round trip sailing.

One of the Commission's tasks is to **regulate ferry fares**. The Commission sets a ceiling or "price cap" on the average level of fares which BC Ferries can charge. The goal in setting the price cap is to balance consumer protection with financial sustainability of the ferry operator, while encouraging efficiency.

The routes are now divided into four geographic groups. Each group has its own price cap, which is a ceiling on the weighted average level of the

individual fares within the group. The level is re-set after every fourth year. Each four-year[4] period is termed a "performance period". In its surveillance of ferry fares, the Commission ensures that the weighted average of ferry fares, for each of seven groups of routes, does not rise above the cap for each group. If it does, the Commission may penalize the operator unless corrective action, e.g. reducing fares, is taken within the next quarter.

*Regulation of service quantity*

In overseeing the amount or **quantity of service** provided by BC Ferries, the Commission monitors the adherence of BC Ferries to the terms of its service contract with the Province. The Commission checks that the numbers of sailings on each route are at a minimum equal to those required in the service contract, subject to an allowance for missed sailings for certain reasons (e.g. bad weather). If there is a shortfall in the quantity of service the operator sacrifices the service fee and may face other more serious consequences.

*Regulation of service quality*

While the broader and less readily measured performance parameter of **service quality** (e.g. punctuality, reliability, comfort and convenience to customers, or other qualitative dimensions of ferry service) are of great importance to ferry customers, the Commission does not try to regulate in this area. To do so would be difficult, and inconsistent with the legislature's intention that regulation be exercised in a light-handed fashion.

However, the Commission does track BC Ferries' regular reports of its on-time performance, and the number of "overload" sailings which depart leaving customers behind in the waiting area. The Commission also inspects regular customer satisfaction sampling surveys which BC Ferries is contractually bound to carry out using an outside polling firm.

*Pro-competitive regulation*

Although BC Ferries has weighty service obligations, it also enjoys **privileges as a near-monopoly**. It has exclusive use of terminals, which are facilities of major strategic and competitive importance to an operator. On 22 of its routes (those other than the three major routes), BC Ferries is the sole recipient of taxpayer support. The company is also income-tax exempt. It has the advantages of a large, incumbent operator with flexibility in vessel deployment, able to take advantage of economies of scale and network coverage. These give the company a low-risk profile from the investors' perspective and result in a comparatively low cost of borrowing.

These advantages are intended by the legal and contractual framework, but largely **protect BC Ferries from meaningful competition**. There are few existing competitors against whom to benchmark BC Ferries. The market and regulatory structure does not foster the emergence of such competitors in future.

In this context, to promote **efficiency** – which helps keep down both ferry fares and the need for taxpayer funding – the Commission's rulings aim to provide incentives to BC Ferries to deliver ferry service in an

---

[4] Except for the first performance period, which was five years ending on March 31, 2008.

efficient fashion while maintaining the required priority on its financial sustainability.

The *Coastal Ferry Act* requires BC Ferries, in each performance period, to submit to the Commission a plan to **seek additional or alternative service providers** (ASPs) and then to execute that plan. ASPs could **serve on BC Ferries routes under subcontract**, if they could reduce the costs of ferry operations. The Commission sees this clause, in part, as guarding against the danger of BC Ferries, in the absence of little other competition, becoming complacent about its own methods and cost-efficiency. The Act empowers the Commission to penalize BC Ferries if it considers that BC Ferries has not submitted a satisfactory plan, and to order it to submit one and to execute it – to a deadline.

*Commission probes*

Overall, the Commission is alert for information, either from its own observations or from the public, suggesting how the performance, service quality, efficiency or productivity of ferry operations could be improved. The Commission may decide to launch a probe on any topic of interest to it, in which the ferry operator is legally required to answer the Commission's questions and comply with any resulting orders, with no appeal.

# 3 Activity Summary

**Commission Activities in 2008/09**

---

1. **Regulation of Ferry Fares**
   - confirmed actual fares were within caps during the year;
   - refined the fuel surcharge mechanism to respond more quickly to fuel price changes.
2. **Regulation of Service Levels**
   - confirmed that BC Ferries delivered contracted round-trips.
3. **Special Decisions**
   - monitored BC Ferries' Alternative Service Providers Plan.
4. **Enforcement**
   - monitored BC Ferries public reporting.
5. **Publication and Outreach**
   - maintained records, published decisions, and communicated with the public and stakeholders;
   - attended meetings with stakeholder groups.
6. **Administration and Reporting**
   - operated an office, obtained support services and consulting advice.

The Commission's activities fall into **six headings** shown on the left. These headings are taken from the Commission's September 2007 Service Plan and Budget for the year ending March 31, 2009. The core, ongoing activities of the Commission include the **regulation of fares** through the price cap mechanism, and the **regulation of service levels**.

**Special decisions** under heading 3 include pre-approval of major capital deployments (e.g. new ships). There was no such application during the year. It also includes overseeing the search for alternate service providers. The Commission found no reason to undertake **enforcement** action under heading 4.

Two further activity areas were to inform the public about the Commission's role (under heading 5 – **publication and outreach**) and to maintain routines and procedures under **administration and reporting** under heading 6.

Readers will find **more detail** in the table on the following pages. It lays out the Commission's **planned versus actual activities** under the same headings, keyed to the relevant section number of the *Coastal Ferry Act*.

# 4 Activity Detail

This section takes the list of the planned Commission activities from its 2008/09 Service Plan and offers a detailed description of actual activities.

| Activity number | *Coast Ferry Act* section | Activity Description | Actual Activity in 2008/09 |
|---|---|---|---|
| 1.0 | **Regulation of Ferry Fares** | | |
| 1.1 | 39 | Monitor how weighted average price is calculated | |
| | | The Commission will monitor the functioning of the Average Fare Model. Developed in collaboration with BC Ferries in 2003/04, the model is the key measuring tool for determining if BC Ferries' weighted average fares are within the price cap set by the Commission. The model requires adjustment and improvement (e.g. for changes in type and quality of source data) and periodic cross-checking. Where necessary, the operation of the model will be externally validated. | The Commission considered various observations and concerns offered by BC Ferries on the behaviour and usefulness of the Average Fare Model.<br><br>Normally the Commission permits the average fare to go over the price cap for just two quarters before requiring BC Ferries to return all excess revenue to customers (through lower-than-otherwise fares) in the very next quarter after the overage. At BC Ferries' request, the Commission agreed to extend the grace period to three consecutive quarters. The Commission issued a Commission Memorandum 31 explaining why. |
| 1.2 | 38,65 | Review BC Ferries quarterly reports on price level | |
| | | The Commission will specify contents required in BC Ferries annual reports respecting fare levels for each route group. The Commission will determine if the weighted average of the tariffs charged for each route group, as measured using the Average Price Model are within the price cap established, and if not make appropriate orders. | The Commission reviewed BC Ferries quarterly reports comparing the actual weighted average fare for each route group with the price cap for that group. The Commission found the company to be in compliance.<br><br>The commission noted that for the minor route group of 16 routes (serving mainly the Gulf Islands), BC Ferries' actual fares were approximately 4% below the maximum average it is allowed to charge. The reasons for the gap and opportunities available to BC Ferries to close the gap were discussed extensively with BC Ferries and the Chairs of the Ferry Advisory Committees. |

# 4 Activity Detail

This section takes the list of the planned Commission activities from its 2008/09 Service Plan and offers a detailed description of actual activities.

| Activity number | *Coast Ferry Act* section | Activity Description | Actual Activity in 2008/09 |
|---|---|---|---|
| 1.0 | **Regulation of Ferry Fares** | | |
| 1.1 | 39 | Monitor how weighted average price is calculated | |
| | | The Commission will monitor the functioning of the Average Fare Model. Developed in collaboration with BC Ferries in 2003/04, the model is the key measuring tool for determining if BC Ferries' weighted average fares are within the price cap set by the Commission. The model requires adjustment and improvement (e.g. for changes in type and quality of source data) and periodic cross-checking. Where necessary, the operation of the model will be externally validated. | The Commission considered various observations and concerns offered by BC Ferries on the behaviour and usefulness of the Average Fare Model.<br><br>Normally the Commission permits the average fare to go over the price cap for just two quarters before requiring BC Ferries to return all excess revenue to customers (through lower-than-otherwise fares) in the very next quarter after the overage. At BC Ferries' request, the Commission agreed to extend the grace period to three consecutive quarters. The Commission issued a Commission Memorandum 31 explaining why. |
| 1.2 | 38,65 | Review BC Ferries quarterly reports on price level | |
| | | The Commission will specify contents required in BC Ferries annual reports respecting fare levels for each route group. The Commission will determine if the weighted average of the tariffs charged for each route group, as measured using the Average Price Model are within the price cap established, and if not make appropriate orders. | The Commission reviewed BC Ferries quarterly reports comparing the actual weighted average fare for each route group with the price cap for that group. The Commission found the company to be in compliance.<br><br>The commission noted that for the minor route group of 16 routes (serving mainly the Gulf Islands), BC Ferries' actual fares were approximately 4% below the maximum average it is allowed to charge. The reasons for the gap and opportunities available to BC Ferries to close the gap were discussed extensively with BC Ferries and the Chairs of the Ferry Advisory Committees. |

| Activity number | *Coast Ferry Act* section | Activity Description | Actual Activity in 2008/09 |
|---|---|---|---|
| 1.0 | **Regulation of Ferry Fares (continued)** | | |
| 1.3 | 42 | Handle any BCF applications for extraordinary price increases | |
| | | The Commission will review and consider applications by the ferry operator for extraordinary tariff/price cap increases, for example, due to extraordinary increases in the price of fuel. | BC Ferries made no application for an extraordinary price cap increase during the year. However in July 2008, BC Ferries requested a modification to Memorandum 24, issued in March 2007, to allow the early implementation of fuel surcharges on the major routes, the minor routes and route 3 (Horseshoe Bay-Langdale). As this was in the best interest of ferry customers, fuel surcharges of 10.3%, 17.6% and 9.2% respectively were approved for August 1, 2008 pursuant to Memorandum 24A issued on July 22, 2008.<br><br>In view of the rapid decline in fuel prices in the fall of 2008, it became apparent that further modifications to the process for adjusting fuel surcharges was necessary to allow greater flexibility and responsiveness to changing market conditions. Accordingly, Memorandum 24B was issued on November 30, 2008 that establishes a revised process or framework for the remainder of Performance Term Two. |
| 1.4 | 45 | Adjust price cap for any service cuts/route discontinuances | |
| | | The Commission will review service reductions or discontinuance of routes for impact on price cap and make appropriate adjustments in price cap. | The Commission did not receive applications for service reductions or route discontinuance during the year. |
| 1.5 | 40, 41 | Conduct price cap review for next performance term | |
| | | The Commission will initiate price cap reviews for each performance term | The Commission completed its price cap review for the second performance term (April 1, 2008 to March 31, 2012) during 2007/08. No activities were carried out in 2008/09 in regard to a price cap review for the third performance term. Activities in this regard will commence in the later part of 2009/10. |
| 2.0 | **Regulation of Ferry Service Levels** | | |
| 2.1 | 38,65 | Review BC Ferries quarterly reports on service level | |
| | | The Commission will specify the format of, and review quarterly reports of BC Ferries (BCF) as the ferry operator to determine if it is meeting the contract service requirements. | BCF quarterly reports on on-time performance, overloads, and sailings provided relative to the contract were reviewed.<br><br>In March 2009, the Commission reported on the impact of Transport Canada's new safe-crewing requirements for some of BCF's vessels. Depending on the company's response to these new requirements, greater overloads on some routes or higher costs for BC Ferries could result. BC Ferries could apply for an increase in the price caps as a result but would have to satisfy the Commission that these costs are extraordinary. |

| Activity number | *Coast Ferry Act* section | Activity Description | Actual Activity in 2008/09 |
|---|---|---|---|
| 2.0 | **Regulation of Ferry Service Levels (continued)** | | |
| 2.2 | 38,66 | Review BCF annual reports on service level | |
| | | The Commission will specify the format of, and review annual reports of BCF as the ferry operator to determine if it is meeting the contract service requirements. It will also review BCF's annual customer satisfaction survey, which BCF must provide to the Commission under the terms of the Coastal Ferry Services Contract. | The Commission reviewed BC Ferries annual report issued in June 2009, as well as the annual customer satisfaction survey. |
| 2.3 | 43 | Handle any BCF applications for service reductions | |
| | | Review and consider any applications by the ferry operator for reductions in service (temporary reductions would occur immediately). | In October 2008, BC Ferries requested authorization to temporarily reduce service on certain northern routes to facilitate terminal upgrade work at Prince Rupert, Port Hardy and Skidegate. Upgrades were necessary to accommodate the new vessel *Northern Expedition*. Based on the Commission's review of adequate notice to communities and affected stakeholders, Order 08.01 was issued on October 24, 2008, allowing the temporary service reductions. |
| 2.4 | 44 | Handle any BCF applications for route discontinuance, possibly hold hearing | |
| | | Review and consider any applications by the ferry operator to discontinue a route. | No applications for route discontinuance were submitted during 2008/09. |
| 3.0 | **Special Decisions** | | |
| 3.1 | 55 | On ferry operator's request, decide if a proposed capital deployment is reasonable | |
| | | If a ferry operator makes an application, the Commissioner will consider a proposed capital deployment or capital expenditures in connection with a route or terminal to determine if they are reasonably required. Consultants of various specialties will be engaged to undertake a "process audit" of the BCF analysis. | BC Ferries made no applications for a ruling under this section in 2008/09. |

| Activity number | *Coast Ferry Act* section | Activity Description | Actual Activity in 2008/09 |
|---|---|---|---|
| 1.0 | **Regulation of Ferry Fares (continued)** | | |
| 1.3 | 42 | Handle any BCF applications for extraordinary price increases | |
| | | The Commission will review and consider applications by the ferry operator for extraordinary tariff/price cap increases, for example, due to extraordinary increases in the price of fuel. | BC Ferries made no application for an extraordinary price cap increase during the year. However in July 2008, BC Ferries requested a modification to Memorandum 24, issued in March 2007, to allow the early implementation of fuel surcharges on the major routes, the minor routes and route 3 (Horseshoe Bay-Langdale). As this was in the best interest of ferry customers, fuel surcharges of 10.3%, 17.6% and 9.2% respectively were approved for August 1, 2008 pursuant to Memorandum 24A issued on July 22, 2008.<br><br>In view of the rapid decline in fuel prices in the fall of 2008, it became apparent that further modifications to the process for adjusting fuel surcharges was necessary to allow greater flexibility and responsiveness to changing market conditions. Accordingly, Memorandum 24B was issued on November 30, 2008 that establishes a revised process or framework for the remainder of Performance Term Two. |
| 1.4 | 45 | Adjust price cap for any service cuts/route discontinuances | |
| | | The Commission will review service reductions or discontinuance of routes for impact on price cap and make appropriate adjustments in price cap. | The Commission did not receive applications for service reductions or route discontinuance during the year. |
| 1.5 | 40, 41 | Conduct price cap review for next performance term | |
| | | The Commission will initiate price cap reviews for each performance term. | The Commission completed its price cap review for the second performance term (April 1, 2008 to March 31, 2012) during 2007/08. No activities were carried out in 2008/09 in regard to a price cap review for the third performance term. Activities in this regard will commence in the later part of 2009/10. |
| 2.0 | **Regulation of Ferry Service Levels** | | |
| 2.1 | 38,65 | Review BC Ferries quarterly reports on service level | |
| | | The Commission will specify the format of, and review quarterly reports of BC Ferries (BCF) as the ferry operator to determine if it is meeting the contract service requirements. | BCF quarterly reports on on-time performance, overloads, and sailings provided relative to the contract were reviewed.<br><br>In March 2009, the Commission reported on the impact of Transport Canada's new safe-crewing requirements for some of BCF's vessels. Depending on the company's response to these new requirements, greater overloads on some routes or higher costs for BC Ferries could result. BC Ferries could apply for an increase in the price caps as a result but would have to satisfy the Commission that these costs are extraordinary. |

| Activity number | *Coast Ferry Act* section | Activity Description | Actual Activity in 2008/09 |
|---|---|---|---|
| 2.0 | **Regulation of Ferry Service Levels (continued)** | | |
| 2.2 | 38,66 | Review BCF annual reports on service level | |
| | | The Commission will specify the format of, and review annual reports of BCF as the ferry operator to determine if it is meeting the contract service requirements. It will also review BCF's annual customer satisfaction survey, which BCF must provide to the Commission under the terms of the Coastal Ferry Services Contract. | The Commission reviewed BC Ferries annual report issued in June 2009, as well as the annual customer satisfaction survey. |
| 2.3 | 43 | Handle any BCF applications for service reductions | |
| | | Review and consider any applications by the ferry operator for reductions in service (temporary reductions would occur immediately). | In October 2008, BC Ferries requested authorization to temporarily reduce service on certain northern routes to facilitate terminal upgrade work at Prince Rupert, Port Hardy and Skidegate. Upgrades were necessary to accommodate the new vessel *Northern Expedition*. Based on the Commission's review of adequate notice to communities and affected stakeholders, Order 08.01 was issued on October 24, 2008, allowing the temporary service reductions. |
| 2.4 | 44 | Handle any BCF applications for route discontinuance, possibly hold hearing | |
| | | Review and consider any applications by the ferry operator to discontinue a route. | No applications for route discontinuance were submitted during 2008/09. |
| 3.0 | **Special Decisions** | | |
| 3.1 | 55 | On ferry operator's request, decide if a proposed capital deployment is reasonable | |
| | | If a ferry operator makes an application, the Commissioner will consider a proposed capital deployment or capital expenditures in connection with a route or terminal to determine if they are reasonably required. Consultants of various specialties will be engaged to undertake a "process audit" of the BCF analysis. | BC Ferries made no applications for a ruling under this section in 2008/09. |

| Activity number | *Coast Ferry Act* section | Activity Description | Actual Activity in 2008/09 |
|---|---|---|---|
| 3.0 | **Special Decisions (continued)** | | |
| 3.2 | 38(4) | Deregulate a ferry route if competition sufficient | |
| | | Make a determination of removing designation for a route upon which sufficient competition exists so that regulation of that route is unnecessary. | There was no activity in this area. |
| 3.3 | 69 | Review BCF's Plan to Seek Alternate Service Providers (ASPs) | |
| | | Monitor the market for ferry services with a view to encouraging competition for BCF; monitor BCF implementation of its Additional and ASPs plans for Performance Term Two. | During 2008/09, the Commission continued monitoring BC Ferries activities in implementing its plan for Performance Term Two. The Commission's observations are contained in this report. |
| 4.0 | **Enforcement** | | |
| 4.1 | 38(2) | Monitor BCF reporting to the public | |
| | | The Commission will observe how BCF reports its own performance on pricing its fares under the price cap, and on its service level actually delivered versus the contracted service levels. | BC Ferries issues tariffs in print and on the world wide web, while the Commission publishes average fare levels compared with price caps for regulatory purposes. |
| 4.2 | 46 | Inspect BCF records as required | |
| | | Order inspections of the records of the ferry operator as necessary. | No activity was necessary. |
| 4.3 | 48 | Issue orders to BCF regarding non-compliance with the law as required | |
| | | Issue orders for non-compliance with the legislation as necessary. | No activity was necessary. |
| 5.0 | **Publication and Outreach** | | |
| 5.1 | 52 | Maintain Commission records, provide public access | |
| | | Files will be maintained accessible to the public under the *Freedom of Information and Protection of Privacy Act*. Response to public enquiries will be made via telephone, postal mail, and e-mail. A web site will be maintained and regularly updated as needed, preferably at least monthly. | A part-time contractor organized and maintained the Commission's public correspondence in electronic form and coordinated all correspondence activities for the Commission.<br><br>Members of the public accessed the Commission in a number of ways: by e-mail, phone, fax or regular mail, via the Commission's website at www.bcferrycommission.com; and by subscribing to e-mail updates.<br><br>The Commission's website, updated regularly, continued to be the primary means of providing information to the public. |



| Activity number | *Coast Ferry Act* section | Activity Description | Actual Activity in 2008/09 |
|---|---|---|---|
| 5.0 | **Publication and Outreach (continued)** | | |
| | | | In addition, important Commission news was sent periodically to the almost 900 subscribers on its e-mail distribution list. During the year, subscribers were notified about Commission decisions on fuel surcharges (July 2008), the Northern Service temporary service reduction agreement (November 2008) and fuel surcharge removals (December 2008). Each update included a brief summary of the decision, a link to the Commission website for more details, frequently asked questions, and contact information.<br><br>In 2008/09, over 250 members of the public contacted the Commission directly. Although most used e-mail, some letters and phone calls were also received. An electronic database of all correspondence to and from the Commission was maintained and reviewed regularly.<br><br>As in previous years, correspondence focused primarily on the cost of ferry travel, both in terms of regular fare levels and fuel surcharges. Everyone who contacted the Commission with a direct query received a personalized response from the Commissioner and/or Commission staff. Correspondence which fell outside the Commission's mandate was forwarded to the Ministry of Transportation and Infrastructure or BCF for a response. |
| 5.2 | 52 | Publish decisions/determinations/orders/proceedings | |
| | | The Commissioner will publish every decision, determination and order in a manner that the Commissioner believes will bring it to the attention of the public. All such items will be published on the Commission's website, at a minimum. | All decisions, determinations and orders were published on the Commission's web site with explanatory text, and question-and-answer sheets as required. |
| 5.3 | N/A | Communicate with public and stakeholders | |
| | | The Commission will actively communicate its role and responsibilities to the public; make appearances in the media; make presentations and speeches to stakeholder groups. | During the year, meetings were held with the public and stakeholders including two meetings with the Chairs of the Ferry Advisory Committees; two annual BC Ferries public meetings in Tsawwassen and Vancouver; one meeting with a potential alternative service provider; and two meetings with BC Ferries Board of Directors, with formal remarks.<br><br>The Commission was also interviewed on several occasions by print and broadcast media. |

| Activity number | *Coast Ferry Act* section | Activity Description | Actual Activity in 2008/09 |
|---|---|---|---|
| 3.0 | **Special Decisions (continued)** | | |
| 3.2 | 38(4) | Deregulate a ferry route if competition sufficient | |
| | | Make a determination of removing designation for a route upon which sufficient competition exists so that regulation of that route is unnecessary. | There was no activity in this area. |
| 3.3 | 69 | Review BCF's Plan to Seek Alternate Service Providers (ASPs) | |
| | | Monitor the market for ferry services with a view to encouraging competition for BCF; monitor BCF implementation of its Additional and ASPs plans for Performance Term Two. | During 2008/09, the Commission continued monitoring BC Ferries activities in implementing its plan for Performance Term Two. The Commission's observations are contained in this report. |
| 4.0 | **Enforcement** | | |
| 4.1 | 38(2) | Monitor BCF reporting to the public | |
| | | The Commission will observe how BCF reports its own performance on pricing its fares under the price cap, and on its service level actually delivered versus the contracted service levels. | BC Ferries issues tariffs in print and on the world wide web, while the Commission publishes average fare levels compared with price caps for regulatory purposes. |
| 4.2 | 46 | Inspect BCF records as required | |
| | | Order inspections of the records of the ferry operator as necessary. | No activity was necessary. |
| 4.3 | 48 | Issue orders to BCF regarding non-compliance with the law as required | |
| | | Issue orders for non-compliance with the legislation as necessary. | No activity was necessary. |
| 5.0 | **Publication and Outreach** | | |
| 5.1 | 52 | Maintain Commission records, provide public access | |
| | | Files will be maintained accessible to the public under the *Freedom of Information and Protection of Privacy Act*. Response to public enquiries will be made via telephone, postal mail, and e-mail. A web site will be maintained and regularly updated as needed, preferably at least monthly. | A part-time contractor organized and maintained the Commission's public correspondence in electronic form and coordinated all correspondence activities for the Commission.<br>Members of the public accessed the Commission in a number of ways: by e-mail, phone, fax or regular mail, via the Commission's website at www.bcferrycommission.com; and by subscribing to e-mail updates.<br>The Commission's website, updated regularly, continued to be the primary means of providing information to the public. |

| Activity number | *Coast Ferry Act* section | Activity Description | Actual Activity in 2008/09 |
|---|---|---|---|
| 5.0 | **Publication and Outreach (continued)** | | |
| | | | In addition, important Commission news was sent periodically to the almost 900 subscribers on its e-mail distribution list. During the year, subscribers were notified about Commission decisions on fuel surcharges (July 2008), the Northern Service temporary service reduction agreement (November 2008) and fuel surcharge removals (December 2008). Each update included a brief summary of the decision, a link to the Commission website for more details, frequently asked questions, and contact information.<br><br>In 2008/09, over 250 members of the public contacted the Commission directly. Although most used e-mail, some letters and phone calls were also received. An electronic database of all correspondence to and from the Commission was maintained and reviewed regularly.<br><br>As in previous years, correspondence focused primarily on the cost of ferry travel, both in terms of regular fare levels and fuel surcharges. Every one who contacted the Commission with a direct query received a personalized response from the Commissioner and/or Commission staff. Correspondence which fell outside the Commission's mandate was forwarded to the Ministry of Transportation and Infrastructure or BCF for a response. |
| 5.2 | 52 | Publish decisions/determinations/orders/proceedings | |
| | | The Commissioner will publish every decision, determination and order in a manner that the Commissioner believes will bring it to the attention of the public. All such items will be published on the Commission's website, at a minimum. | All decisions, determinations and orders were published on the Commission's web site with explanatory text, and question-and-answer sheets as required. |
| 5.3 | N/A | Communicate with public and stakeholders | |
| | | The Commission will actively communicate its role and responsibilities to the public; make appearances in the media; make presentations and speeches to stakeholder groups. | During the year, meetings were held with the public and stakeholders including two meetings with the Chairs of the Ferry Advisory Committees; two annual BC Ferries public meetings in Tsawwassen and Vancouver; one meeting with a potential alternative service provider; and two meetings with BC Ferries Board of Directors, with formal remarks.<br><br>The Commission was also interviewed on several occasions by print and broadcast media. |

| Activity number | *Coast Ferry Act* section | Activity Description | Actual Activity in 2008/09 |
|---|---|---|---|
| 6.0 | **Administration and Reporting** | | |
| 6.1 | 36 | Operate office and engage external support services | |
| | | Operate the Office of the Commission. Maintain arrangements for telephone, mail and electronic access. Rent office space as required. Maintain office operations (secretarial, phone, courier, post, internet, web site). Office equipment to be dedicated to Commission use. Work with the Office of the Attorney General as provider of payment system on behalf of the Commission. Obtain internal bookkeeping, archiving, and legal services as required. | The Commission operated a virtual office. Accounting and payment system was provided by Office of the Attorney General at no charge to the Commission. Independent legal advice during the year was not required. An independent contractor was engaged to develop the Commission's communication and outreach plans and to assist with public correspondence. |
| 6.2 | N/A | Research background to ferry operating environment | |
| | | This activity is the Commissioner's ferry system familiarization and background study. Research and investigations to be initiated by Commission. | The Commissioner and Deputy Commissioner intend to travel all ferry routes in person. |
| 6.3 | 69 | Prepare Commission's annual budget | |
| | | Budget will include expenditures reasonably expected to be incurred in the following year, supported by a Service Plan for the year. | The Commission's Annual Service Plan and Budget for 2009/10 was submitted to the Minister of Transportation and Infrastructure and BCF on September 30, 2008 as required. |
| 6.4 | 53 | Report annually to Lieutenant-Governor in Council | |
| | | Within four months after the end of each fiscal year, the Commissioner will make a report to the Lieutenant-Governor in Council for the preceding fiscal year. | The Commission's 2007/08 Annual Report was submitted to the Lieutenant-Governor in Council on July 31, 2008 as required and outlines briefly:<br>• all applications and requests for decisions to the Commissioner under the Act where applicable;<br>• all orders issued by the Commissioner where applicable;<br>• the financial statements applicable to the Office of the Commissioner for that year along with full disclosure of the expenses of, and associated with, the Office of the Commissioner; and<br>• other information the Lieutenant-Governor in Council directs where applicable. |

# 5 Average Fare Levels

The table below shows the values of a price cap index (=100 at 2003) compared to an index of actual weighted average fares, for each of four route groups in the BC Ferries system (amalgamated from seven groups used in the first performance term which ended March 31, 2008).

The values for the indices are computed by methods outlined in Commission Order 05-01 and are based on trailing four-quarter data. They exclude extraordinary increases allowed in Performance Term Two, i.e. due to high fuel prices, which are separately measured and tracked.

The Commission's policy allows BC Ferries to exceed the cap (in yellow) for no more than three consecutive quarters. This ensures that the company does not retain revenues earned at above-cap prices. As seen below, in the first quarter of 2008/09, BC Ferries fare levels moved within cap after two route groups saw average fares exceed caps for two consecutive quarters in 2007/08. In 2008/09, BC Ferries exceeded the cap only once in the last quarter of the year. Accordingly, BC Ferries was found to be in compliance with price caps in 2008/09.

≈BCFerries

| Route Group | | Jun-2007 | Sep-2007 | Dec-2007 | Mar-2008 | Jun-2008 | Sep-2008 | Dec-2008 | Mar-2009 |
|---|---|---|---|---|---|---|---|---|---|
| Majors | | | | | | | | | |
| | Cap | 110.33 | 111.45 | 112.10 | 112.87 | 124.80 | 129.85 | 131.46 | 133.25 |
| | Actuals | | | | | | | | |
| Route 1 | | | | | | | | | |
| | Cap | 116.65 | 118.35 | 119.55 | 120.59 | 136.30 | 139.72 | 142.12 | 143.22 |
| | Actuals | | | | | | | | |
| Northern | | | | | | | | | |
| | Cap | 115.58 | 116.47 | 119.24 | 119.87 | 129.98 | 145.00 | 146.96 | 147.42 |
| | Actuals | | | | | | | | |
| Route 40 | | | | | | | | | |
| | Cap | 114.36 | 116.79 | No Service | | | | | |
| | Actuals | | | | | | | | |
| Route 12 | | | | | | | | | |
| | Cap | 116.53 | 118.32 | 119.48 | 120.49 | | | | |
| | Actuals | | | | | | | | |
| Minors | | | | | | | | | |
| | Cap | 116.07 | 118.29 | 119.50 | 120.69 | 142.26 | 148.71 | 149.02 | 149.15 |
| | Actuals | | | | | | | | |
| Route 12 | | | | | | | | | |
| | Cap | 116.16 | 118.20 | 119.46 | 120.59 | | | | |
| | Actuals | | | | | | | | |

| Activity number | *Coast Ferry Act* section | Activity Description | Actual Activity in 2008/09 |
|---|---|---|---|
| 6.0 | **Administration and Reporting** | | |
| 6.1 | 36 | Operate office and engage external support services | |
| | | Operate the Office of the Commission. Maintain arrangements for telephone, mail and electronic access. Rent office space as required. Maintain office operations (secretarial, phone, courier, post, internet, web site). Office equipment to be dedicated to Commission use. Work with the Office of the Attorney General as provider of payment system on behalf of the Commission. Obtain internal bookkeeping, archiving, and legal services as required. | The Commission operated a virtual office. Accounting and payment system was provided by Office of the Attorney General at no charge to the Commission. Independent legal advice during the year was not required. An independent contractor was engaged to develop the Commission's communication and outreach plans and to assist with public correspondence. |
| 6.2 | N/A | Research background to ferry operating environment | |
| | | This activity is the Commissioner's ferry system familiarization and background study. Research and investigations to be initiated by Commission. | The Commissioner and Deputy Commissioner intend to travel all ferry routes in person. |
| 6.3 | 69 | Prepare Commission's annual budget | |
| | | Budget will include expenditures reasonably expected to be incurred in the following year, supported by a Service Plan for the year. | The Commission's Annual Service Plan and Budget for 2009/10 was submitted to the Minister of Transportation and Infrastructure and BCF on September 30, 2008 as required. |
| 6.4 | 53 | Report annually to Lieutenant-Governor in Council | |
| | | Within four months after the end of each fiscal year, the Commissioner will make a report to the Lieutenant-Governor in Council for the preceding fiscal year. | The Commission's 2007/08 Annual Report was submitted to the Lieutenant-Governor in Council on July 31, 2008 as required and outlines briefly:<br>• all applications and requests for decisions to the Commissioner under the Act where applicable;<br>• all orders issued by the Commissioner where applicable;<br>• the financial statements applicable to the Office of the Commissioner for that year along with full disclosure of the expenses of, and associated with, the Office of the Commissioner; and<br>• other information the Lieutenant-Governor in Council directs where applicable. |

# 5 Average Fare Levels

The table below shows the values of a price cap index (=100 at 2003) compared to an index of actual weighted average fares, for each of four route groups in the BC Ferries system (amalgamated from seven groups used in the first performance term which ended March 31, 2008).

The values for the indices are computed by methods outlined in Commission Order 05-01 and are based on trailing four-quarter data. They exclude extraordinary increases allowed in Performance Term Two, i.e. due to high fuel prices, which are separately measured and tracked.

The Commission's policy allows BC Ferries to exceed the cap (in yellow) for no more than three consecutive quarters. This ensures that the company does not retain revenues earned at above-cap prices. As seen below, in the first quarter of 2008/09, BC Ferries fare levels moved within cap after two route groups saw average fares exceed caps for two consecutive quarters in 2007/08. In 2008/09, BC Ferries exceeded the cap only once in the last quarter of the year. Accordingly, BC Ferries was found to be in compliance with price caps in 2008/09.

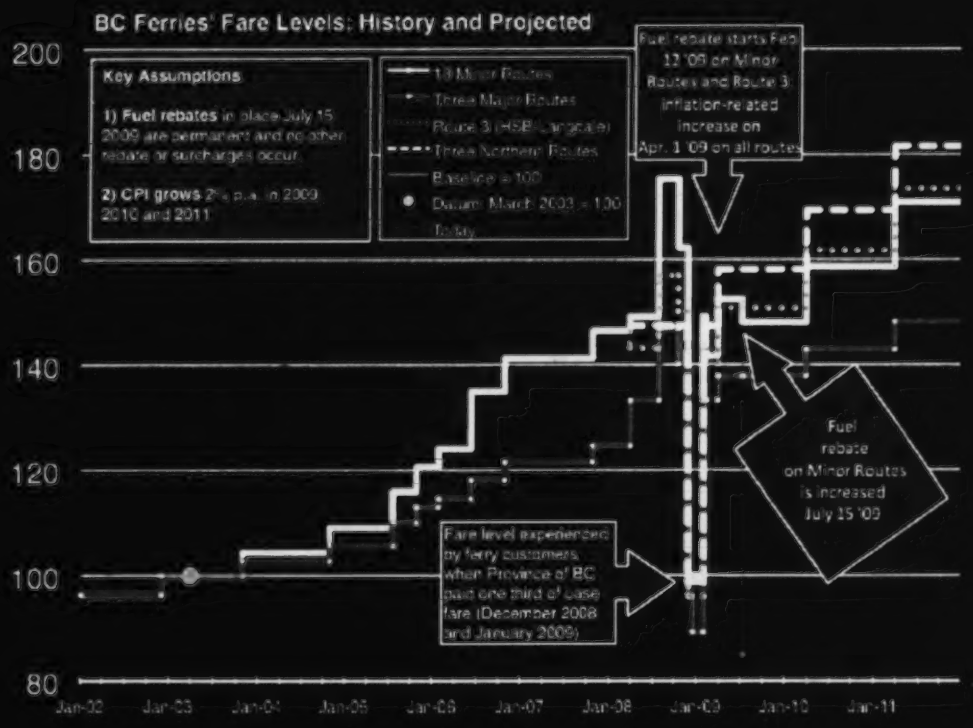
BCFerries

Average Fare Index Summary

| Route Group | | Jun-2007 | Sep-2007 | Dec-2007 | Mar-2008 | Jun-2008 | Sep-2008 | Dec-2008 | Mar-2009 |
|---|---|---|---|---|---|---|---|---|---|
| Majors | | | | | | | | | |
| | Cap | 110.33 | 111.45 | 112.16 | 112.87 | 124.83 | 129.89 | 131.46 | 133.26 |
| | Actual | 111.15 | 111.13 | 112.44 | 114.08 | 123.64 | 127.66 | 130.17 | 134.41 |
| Route 3 | | | | | | | | | |
| | Cap | 116.65 | 118.35 | 119.85 | 120.59 | 136.30 | 139.72 | 142.12 | 143.22 |
| | Actual | 116.59 | 117.92 | 119.00 | 119.26 | 133.46 | 135.85 | 138.18 | 138.77 |
| Northern | | | | | | | | | |
| | Cap | 115.98 | 118.47 | 119.34 | 119.87 | 139.98 | 145.00 | 146.99 | 147.42 |
| | Actual | 106.78 | 115.23 | 114.13 | 114.28 | 136.12 | 141.52 | 143.71 | 145.37 |
| Route 40 | | | | | | | | | |
| | Cap | 114.38 | 118.79 | No Service | | | | | |
| | Actual | 117.48 | 120.36 | | | | | | |
| Route 12 | | | | | | | | | |
| | Cap | 116.63 | 118.32 | 119.48 | 120.43 | | | | |
| | Actual | 117.67 | 117.67 | 121.86 | 124.56 | | | | |
| Minors | | | | | | | | | |
| | Cap | 116.67 | 118.29 | 119.80 | 120.69 | 142.26 | 148.74 | 148.07 | 149.18 |
| | Actual | 116.27 | 118.30 | 119.42 | 117.37 | 139.09 | 141.66 | 144.46 | 145.22 |
| Route 13 | | | | | | | | | |
| | Cap | 116.18 | 118.20 | 119.46 | 120.69 | | | | |
| | Actual | 116.29 | 117.71 | 117.80 | 116.37 | | | | |

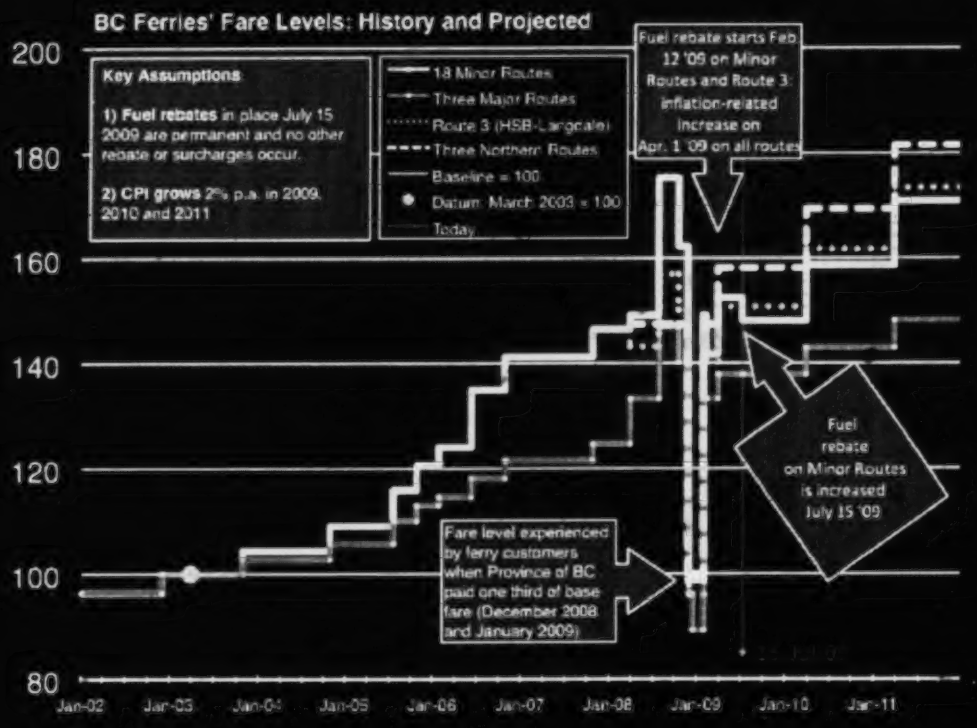
The average fare index on the previous page shows only the fare levels before fuel surcharges or rebates. Below is a graph which includes these items, giving a closer appreciation of the total that customers pay for ferry travel, historical and forecast through 2012.

Note that the chart, which is current up to and including July 15, 2009, makes a critical assumption for the forecast through 2012 that fuel rebates currently in place do not change.


BC Ferries' Fare Levels: History and Projected
Key Assumptions
1) Fuel rebates in place July 15 2009 are permanent and no other rebate or surcharges occur.
2) CPI grows 2% p.a. in 2009 2010 and 2011
13 Minor Routes
Three Major Routes
Route 3 (HSB - Langdale)
Three Northern Routes
Baseline = 100
Datum: March 2003 = 100
Today
Fuel rebate starts Feb 12 '09 on Minor Routes and Route 3; inflation-related increase on Apr. 1 '09 on all routes
Fuel rebate on Minor Routes is increased July 15 '09
Fare level experienced by ferry customers when Province of BC paid one third of base fare (December 2008 and January 2009)
200
180
160
140
120
100
80
Jan-02
Jan-03
Jan-04
Jan-05
Jan-06
Jan-07
Jan-08
Jan-09
Jan-10
Jan-11

The average fare index on the previous page shows only the fare levels before fuel surcharges or rebates. Below is a graph which includes these items, giving a closer appreciation of the total that customers pay for ferry travel, historical and forecast through 2012.

Note that the chart, which is current up to and including July 15, 2009, makes a critical assumption for the forecast through 2012 that fuel rebates currently in place do not change.


BC Ferries' Fare Levels: History and Projected
Key Assumptions
1) Fuel rebates in place July 15 2009 are permanent and no other rebate or surcharges occur.
2) CPI grows 2% p.a. in 2009, 2010 and 2011
18 Minor Routes
Three Major Routes
Route 3 (HSB-Langdale)
Three Northern Routes
Baseline = 100
Datum: March 2003 = 100
Today
Fuel rebate starts Feb 12 '09 on Minor Routes and Route 3; inflation-related increase on Apr. 1 '09 on all routes
Fuel rebate on Minor Routes is increased July 15 '09
Fare level experienced by ferry customers when Province of BC paid one third of base fare (December 2008 and January 2009)
200
180
160
140
120
100
80
Jan-02
Jan-03
Jan-04
Jan-05
Jan-06
Jan-07
Jan-08
Jan-09
Jan-10
Jan-11

# 6 Financial Statements

*Accounting Services*

The Commission is grateful for the assistance of the Ministry of the Attorney General which provides accounting, banking and payment services at no cost to the Commission. These financial statements are based upon the financial information provided by the ministry.

*Summary Financial Statements*

**BC Ferry Commission**
**Summary Financial Statements**
(In $ thousands)

| FY | 2008/09 Budget | 2008/09 Actual | 2007/08 Actual |
|---|---|---|---|
| **Statement of Operation** | | | |
| *Revenues* | 275 | 47 | 328 |
| *Expenditures* | | | |
| Operating Costs | 275 | 127 | 145 |
| **Surplus (deficit)** | 0 | (80) | 183 |
| **Change in Net Assets** | | | |
| Opening balance | | 229 | 46 |
| Surplus (Deficit) | | (80) | 183 |
| **Net Assets End of Year** | | 149 | 229 |

*Revenues*

Revenues consist of a percentage levy on toll revenues from ferry operators. In 2008/09, the total paid to the Commission by BC Ferries, the only ferry operator regulated by the Commission during the year, was $47,000.

*Expenditures*

Expenditures in 2008/09 were $127,379. Expenditures were for Commissioners' fees and expenses and for the cost of consultants engaged to assist and advise the Commission.

The *Coastal Ferry Act* s.58 allows the Commissioner a budget which does not exceed the total of the following:

> (a) for each quarter, if any, of that fiscal year in which the commissioner is to take any action under section 40, 1/20 of 1% of the previous year's tariff revenue;
> (b) for every other quarter of that fiscal year, 1/40 of 1% of the previous year's tariff revenue.

Section 40 of the Act concerns establishment of price caps for subsequent performance terms. The Commission was not active under section 40 in 2008/09, so that paragraph (b) above is applicable for all four quarters, giving a maximum annual budget of 0.1% (4 x 0.025%) of the previous year's tariff revenue.

The cost of operating the Commission represented 0.033% of BC Ferries' 2007/08 tariff revenue of $382,229,000, or one-third of the budget maximum.

*Commissioner Remuneration*

The Commissioner and Deputy Commissioner are paid a per-diem fee for their services. The Commissioner received $58,988 in fees during the year and reimbursements of $6,638 for expenses incurred during the year, including travel, dedicated office equipment, office supplies, telephone, web site and other communications expenses. The Deputy Commissioner received $39,300 in fees for and was reimbursed $1,929 for travel and other expenses incurred during this period.

*Net Assets*

The difference between the amounts received from ferry operators and expenditures is carried forward for use in the next fiscal year. The Net Assets of the Commission are included in the Financial Statements of the Province of British Columbia.